Gearing Up for Hybrid LTC

Find Out How This Combo is Driving Sales

Long-Term Care: Self-Insure if You Can

by Gene A. Pastula, CFPÆ

For years insurance professionals have been trying to find the right combination of benefits and costs that will motivate those who are willing to consider preparing for the inevitable need for assistance with activities of daily living at some time in their lives. People with large incomes or who have substantial assets enjoy some options that the rest of us do not — the choice to purchase insurance or self-insure. For most, this means doing nothing about the problem until the worst happens and then relying on your own resources to cover the cost.

This, of course, is not always the ideal solution. No one likes the idea of risking $100,000 to $400,000 or more, but the alternative is to pay large premiums for insurance they hope to never use. And they didn't build their net worth by throwing away good money. Understanding this unattractive alternative is why linked-benefit life was developed.

It's the Smarter Way to Self-Insure

Most professionals who focus on selling long-term care insurance have dealt with a constantly changing industry that can't seem to settle on the best formula for a product that will sell and be profitable at the same time. But one thing has been consistent over the years — the objective is to come as close as possible to having the insurer totally assume the client's financial risk of long-term care.

The typical sale's process is to match, as closely as possible, the benefits provided by the policy to the likely cost and type of care and have it keep up with inflation — similar to how a homeowner's policy is sold. Anything short of that is, well, less than ideal. Prospective clients face a decision to pay a significant premium (that will probably be increased) for the rest of their lives for something that will only pay benefits if the worst scenario they can imagine happens to them. It's no wonder why selling long-term care insurance is so difficult for most advisors.

Those who choose not to purchase a long-term care policy are accepting the risk to self-insure. They believe they just dodged a bullet by avoiding a very expensive purchase that would be like flushing thousands of dollars down the drain. This may seem like a great idea at the time until they are diagnosed with a serious condition or incur an injury that will change their family lifestyle and their lives forever. Their financial advisor says, "Don't worry about it. You have plenty of money." It's comforting until someone in the family must write checks for $5,000 to $10,000 per month. In retrospect, self-insuring has just become a really dumb idea.

Rather than continue to ignore the issue, those who choose to properly self-insure should allocate money that will be readily available when they need a caregiver at their home at a cost of $4,000 to $10,000 per month or

when they are admitted to a nursing home at $6,000 to $9,000 per month.

For those with enough assets, there will always be money somewhere. Money that will be allocated for long-term care is probably best placed where it will be liquid and somehow guaranteed to be worth enough to provide the required additional income when needed. It would take about $260,000 earning 5% to generate $6,000 per month for four years, not taking in to account any taxes that would be paid. Self-insurance is a credible option as long as the client has that amount of money set aside or knows that their money will grow to that amount by the time they need it. And I'll bet the client will feel really good about that decision at that time.

The problem is that there is no way of knowing how long it will be before long-term care will be needed, what kind of care will be needed, how long it will be needed, and what the actual cost will be. A client who can allocate as little as $135,000 and get 7% per year and can count on 10 years to accumulate, should be good to go unless they need more than four years of care. Costs will have increased by then.

This is where a good linked-benefit life based strategy is appropriate. Linked-benefit life is the only financial instrument that can hold money safely and perform all of these things we want it to do. When you think about it in financial terms, as an investment for older clients, life insurance becomes a very attractive option. We know how much is invested in premiums and what the benefit will be. Only the probable rate of return remains a mystery since it will depend on when death occurs or care is needed. For many people the worst case is living a long life and having a modest 3% rate of return on premium. If they die at their life expectancy age, it is more like 5%. If they can get lucky and die early, the annual return on their premium investment can easily be over 10%, tax free.

The client can place money in a life insurance policy with a special provision that allows the insured access to the death benefit before they die. We can make that money grow all of a sudden when it's needed to pay for long-term care — much like we would expect it to do when death occurs. If the need for care lasts only for a short time, the undispersed remainder of the death benefit will pass to the heirs. So, unlike typical long-term care insurance, once the money has been paid into the cash value account of the policy. someone is going to realize a positive return. We also know that, just like with any other liquid asset, we can get at that money for any reason at any time (subject to conditions that vary with different carriers and products).

Most linked-benefit products offer additional riders that continue to pay the long-term care benefits for several years after the death benefit has been exhausted; thus providing a long-term care benefit that is three to six times the original premium deposit. And in the case of one carrier, an unlimited lifetime benefit can be purchased. A note of caution here: Do not confuse the linked-benefit long term care policy [IRS code Section 7702(b)] with the chronic illness riders [Section 101(g)]. For a white paper on the subject go to http://goo.gl/emDcNs .

"...linked benefit products have been a solid, successful alternative strategy that provides predictable results and peace of mind. They are a fundamental asset in any portfolio."

Experience has taught us that self-insurance is most appealing well before the need occurs. But when it comes time to write the checks, everyone would prefer an insurance company to be involved. With linked-benefit life we have developed the best of these options. Well before the time of need, it's just another cash account on the balance sheet that's available for any need at any time. However, when death or the need for long-term care occurs, it instantly increases and becomes a valuable resource that can help minimize the financial impact to the family and the estate.

So why doesn't everyone with some investable assets get a linked-benefit plan for their portfolio? One very important reason is that the advisor is presenting it like a long-term care insurance policy instead of an asset that will be profitable to the client or his estate no matter what happens.

Like any homeowners or auto insurance policy, most long-term care sales are made based on premium. The majority of the thousands of conventional LTC policies sold each year boil down to, 'Can you offer a plan that is satisfactory at a premium that is acceptable to me?' If you present a linked-benefit plan like a conventional policy ($x amount of benefits for $y amount of premium), the only feature you offer is that there is no use it or lose it in the equation. But when the clients have the resources available to move into such a plan, (in one lump sum or in annual instalments) you explain the following:

- The value of their investment as opposed to the expense of LTC insurance.
- That for $50,000 or $100,000 they can instantly create an asset that's three to six times that amount if they ever need long-term care
- That their $100,000 is never spent, but remains on their balance sheet under the name of the insurance company instead of the bank
- That their results are guaranteed with little or no chance of a rate increase, depending on the carrier.

When presented this way, instead of getting a response that the policy is too expensive, you will hear what we have been hearing for 25 years, "It sounds too good to be true." Since 1987, linked benefit products have been a solid, successful alternative strategy that provides predictable results and peace of mind. They are a fundamental asset in any portfolio. ❑

Gene Pastula, CFP is founder and president of Westland Financial Services, Inc. a national insurance marketing firm serving financial planners and investment advisors since 1974; and the innovator of the linked-Benefit concept. He has trained over 7,000 advisors in the portfolio applications of life insurance and annuities and has contributed in such national publications as the Wall Street Journal and Investor's Business Daily. Gene can be reached at genep@westlandinc.com.